



# WASHOE COUNTY

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## STAFF REPORT

BOARD MEETING DATE: October 9, 2012

**DATE:** October 5, 2012  
**TO:** Board of County Commissioners  
**FROM:** John Berkich, Assistant County Manager  
Paul Lipparelli, Assistant District Attorney  
**THRU:** Katy Simon, County Manager  
**SUBJECT:** Status report on the restructuring the debt for the construction of the baseball stadium and direction to staff on specific terms of possible agreement with the City of Reno, Reno Redevelopment Agency and/or Reno Aces ownership group to support operations and management of stadium authority.

### SUMMARY

The Reno Redevelopment Authority's ("RDA") claims against the County involving property tax distribution and the baseball ownership group disputes over the property taxes on the stadium have provided the context for County staff discussions with Reno city staff and certain elected officials together with the principals of SK Baseball. In addition to resolving the specific disputes, the baseball group is working to keep the operation of the team viable over the long term by finding a way to restructure the debt it incurred in construction of the stadium project. While the County has no legal obligation in the debt restructuring, the baseball group has asked the County to assist and a successful outcome is in the financial and commercial interests of the entire region. For that reason, all the parties have worked together to find solutions that can be put in place by the current City Council and County Commission.

### BACKGROUND

What is now the Reno Aces Ballpark was a baseball stadium project financed in part with County bonds which are funded by the rental car tax (\$30M+/- which includes Herb Simon's investment of \$10M), and the developer's considerable additional investment (approximately \$58M) backed by its development agreements with the City's Redevelopment Authority ("RDA"). While the total cost of the stadium is approximately \$58M, the developers have also incurred substantial costs (\$30M) in purchasing land and constructing all the other improvements (restaurants, bars, nightclubs) which have become an integral part of the entertainment complex. The additional stadium costs (\$28M – the amount above the \$30M provided by the car rental tax bonds) and the additional project costs (\$30M) have been financed under a short-term loan of approximately (\$58M) which is now due in about 14 months.

AGENDA ITEM # 20

Most if not all such sports facilities require some type of public contribution or subsidy. For this project, the subsidy provided in the current agreement between the RDA and SK is based on tax increment funding whereby SK is to receive \$2.5M per year for 20 years with a minimum annual guarantee of \$1 million to restructure their short-term construction loan. Tax increment is produced when a developer's improvements in the district increase the property tax revenues. Due to the collapse of the real estate market and the major reductions in taxable values of downtown gaming properties in the district, the tax increment performance has failed to produce adequate revenues to the RDA and its payments to SK have not been made for the past 4 years. The poor performance of tax increment for the past 4 years (which is not expected to recover soon) has eliminated SK's ability to refinance its short term loan of \$58 million which is due in 2014. Baseball now seeks local support to replace the original public financial subsidy/support (i.e. tax increment) with one of two new public sources - local funding from the city, RDA and the county or the expansion of the car rental tax.

This continuing public support will protect the existing public investment (i.e. \$30M in bonds using car rental tax) and assures that baseball will continue to be a viable attraction for the city. As originally structured, this development stands out as a model for public/private partnerships as it has transformed a blighted area of the downtown core into a destination entertainment center adding to the quality of life of thousands of people throughout the region while generating an estimated \$21M in economic activity to the local economy (see attached report). SK Baseball has and continues to bring, national attention to the city and region by winning this season's Triple-A National Championship on national television; by winning the right to host the 2013 Triple-A All-Star Game here next June; and, by hosting the recent promotional convention for all of minor league baseball. Beyond just the economic impacts from the project, the Aces have also become a committed and involved corporate citizen in the community donating continuously through the Aces Foundation, to local non-profit organizations, charities, families and individuals.

### **COUNTY'S ROLE**

As all the parties recognize, the County has performed in its responsibilities on the rental car bonds and is voluntarily participating in the discussions on ways to restructure the stadium financing agreement. Until recently, these discussions had been tied to the settlement of the RDA claim against the County, but that was resolved in the settlement agreement approved by the Board on August 28, 2012. This expedited settlement was done at the request of the RDA which enabled the RDA to avoid defaulting on certain bond obligations that were due September 1. Such a default would have led bondholders' representatives and bond insurance companies to insert themselves into the affairs and would likely have deprived the RDA and the city of control over the RDA's finances. A default could have also affected the financial reputation of local governments in the region. Finally on this matter, it should be noted, that the discrepancies that led to the filing of the claim were uncovered by the legal firm of Paul Bancroft, Esq. who was retained by SK to discover whether or not the distributions to the RDA were accurate and complete.

County staff followed the Board's guidance to seek settlement of the RDA issue, resolve the issues of the unpaid property taxes and debt service reserve and if possible, help in the resolution of the stadium (SK) issues as part of that settlement. Unfortunately, these two issues were "decoupled" with the recent RDA settlement. Earlier this summer the RDA developed spreadsheets depicting the potential flows of money resulting from various settlement scenarios. The RDA's depletion of debt payment reserves and the priority of the distribution of RDA revenues, made it clear that even with settlements very favorable to the RDA, there would not be enough property tax flowing for the tax increment to produce what was needed for baseball. The baseball group identified that shortcoming and shifted its focus to the need for other revenues from the local governments which were not limited to the RDA settlement

### **FOREBEARANCE AGREEMENT AND NEW STRUCTURE**

Because the existing financing agreement between RDA and baseball is failing, baseball has been working with the RDA to develop a "forebearance agreement." That agreement would provide a formal means for those two parties to freeze the rights and duties they have with the existing financing agreements and focus on a new structure.

As conceptualized to date, the proposed forbearance agreement would provide a formal means for those two parties (baseball and RDA) to freeze the rights and duties they have with the existing financing agreements and focus on a new structure. As proposed under this agreement, to replace the existing construction debt, the baseball group would establish a single-purpose, non-profit entity to be the issuer of securities called Certificates of Participation ("COP"). The combined public and private streams of revenue would be pledged to repay those securities (approximately \$58M). Baseball would apply the proceeds to the construction debt and the non-profit would repay the holders of the COPs over time. The Stadium Authority would be formed and would recommend to the city council the enacting of a ticket tax (estimated to be \$350,000) which would be pledged to the COPs. Since the Stadium Authority is authorized to operate, maintain and improve the baseball stadium, financial support by local governments (estimated to be \$1.5M) of the Stadium Authority can potentially relieve baseball of operating costs and free up baseball's operating revenues to be pledged to the COPs.

The timely issuance of the COPS is critical as the short-term loan is due in less than 14 months. To issue the COPS, Baseball is required to seek local support now to replace the original subsidy (tax increment) with the following funding:

- Local support - The city and/or the county contribute local funding as follows:
  - While a final proposal from the City to baseball has not been made, the City has continued to represent that the city would potentially contribute the following:
    - the City would contribute \$750,000 for thirty years subject to annual appropriation
    - the RDA projects approximately \$100,000 in tax increment may available annually for Baseball

- As to the County's possible contribution towards Baseball's \$1.5M funding target, with the RDA settlement no longer a funding solution, staff has identified various options for the Board's consideration which are set-forth in the attached Term Sheet.
- Expansion of the Car Rental Tax – as proposed, both the city and county would jointly seek legislation to expand the car rental tax in the 2013 Session. With its enactment, the new revenue stream would replace any existing funding contributed by the county.

Instead of paying its current nominal rent (\$1/year), Baseball would agree to make substantial rent payments (\$1M minimum) which would be pledged to the COPS. The team would also pledge the sales tax generated within the STAR Bond Area (estimated to be \$300,000)

The sum total of the above revenue streams is estimated to be approximately:

\$ 350,000 – new ticket tax
1,000,000 – new stadium lease payment by baseball (currently \$1/year)
300,000 - sales tax
750,000 - City
100,000 – RDA
<u>500,000 - Baseball's continuing request of the City/County (Term Sheet attached)</u>
<u>\$3,000,000 - Total</u>

This combined revenue stream would be used to fund the COPS (\$58M) which replaces the existing construction debt of which, approximately \$28M would be the stadium portion. Once the COPS are repaid, the stadium would be transferred to the SA and become a publicly-owned facility.

All parties involved in this issue would recommend a final resolution be considered by the sitting elected bodies who have the benefit of their collective history and knowledge about this project. For that reason, time is short given the number of meetings remaining prior to the changes coming to both the Commission and Council in the November elections.

### **FISCAL IMPACT**

Undetermined

### **RECOMMENDATION**

Accept the status report on the restructuring the debt for the construction of the baseball stadium and direct staff on specific terms of possible agreement with the City of Reno, Reno Redevelopment Agency and/or Reno Aces ownership group to support operations and management of stadium authority.

### **POSSIBLE MOTION**

Motion to accept the status report on the restructuring the debt for the construction of the baseball stadium and direct staff on specific terms of possible agreement with the City of Reno, Reno Redevelopment Agency and/or Reno Aces ownership group to support operations and management of stadium authority.

January 13, 2012

TO: John Berkich, Assistant County Manager  
Washoe County Government

FROM: Tom Harris, Professor and Director  
University of Nevada, Reno  
Department of Economics  
University Center for Economic Development

RE: Estimated Average Annual Economic Impacts of Baseball Facility

This memorandum is in response to your request for estimation of economic, employment, and household income impacts of the Reno Aces Baseball Operation on the economy of Washoe County. The model to derive the impacts was the IMPLAN microcomputer input-output model which has been done for numerous economic impacts (Minnesota IMPLAN Group, Inc., 2010). Your offices sent me operation, employment, and payroll data over a three year period. I took this data and derived a three year average to use for annual total expenditures, payroll expenses, and employment.

Total expenditures are a three year average of annual expenses and payrolls which yields an annual average of \$11.7 million and three year average for employment was 677 jobs. Table 1 shows the annual employment and economic impacts of the Reno Baseball Operation.

Table 1. Economic and Employment Impacts of Reno Aces Operation

ImpactType	Employment	Expenditures
Direct Effect	677	11,650,000
Indirect Effect	27	3,655,251
Induced Effect	34	5,789,686
Total Effect	738	21,094,937

Given the multiplier effect, from average annual employment of 677 employees total employment impacts will be 738 jobs. Also with average annual expenditures of \$11.7 million, the total economic impact on the Washoe County economy from Reno Baseball operations is estimated to be \$21.1 million.

## REFERENCES

Minnesota IMPLAN Group, Inc. "User's Guide to IMPLAN Version 3.0 Software".  
Minnesota IMPLAN Group, Inc.: Hudson, WI, 2011.

## **TERM SHEET**

The terms of a possible agreement are listed below. This is not an offer or a commitment by Washoe County and a final and binding agreement must be approved by the Board of County Commissioners. Any and all County participation is contingent on City and RDA participation.

County:

1. Participate in the Washoe County Stadium Authority with 2 seats on the board of directors.
2. Develop with the City of Reno an interlocal agreement for the role and manner of operation of the stadium authority and the operation, improvement and maintenance of the stadium.
3. Support a recommendation from the stadium authority to the Reno City Council for the enactment of a city ordinance imposing a surcharge on items and services sold in the stadium with the proceeds to be used to fund the operations of the stadium authority as authorized by NRS 244A.830.
4. Cooperate in and support legislation to increase the fees on rental cars in Washoe County with the proceeds used to support the operations of the stadium authority and to replace over a period of years the \$750,000 debt service reserve <sup>1</sup> funded by Washoe County for the \$30M rental car bonds.
5. Subject to annual appropriation, commit to the financial support of the stadium authority in an amount that reflects the property tax proceeds received by Washoe County from the baseball stadium.
6. Cooperate with the City of Reno and the stadium authority to find or create ways to lower the costs of the operation of the baseball stadium through an interlocal agreement with the stadium authority to fund the authority's operations.

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<sup>1</sup> Baseball was not able to meet its' original commitment to replacing the DSR due to the City's inability to meet its' \$1M minimum annual guarantee payment.